

MEMORANDUM



TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

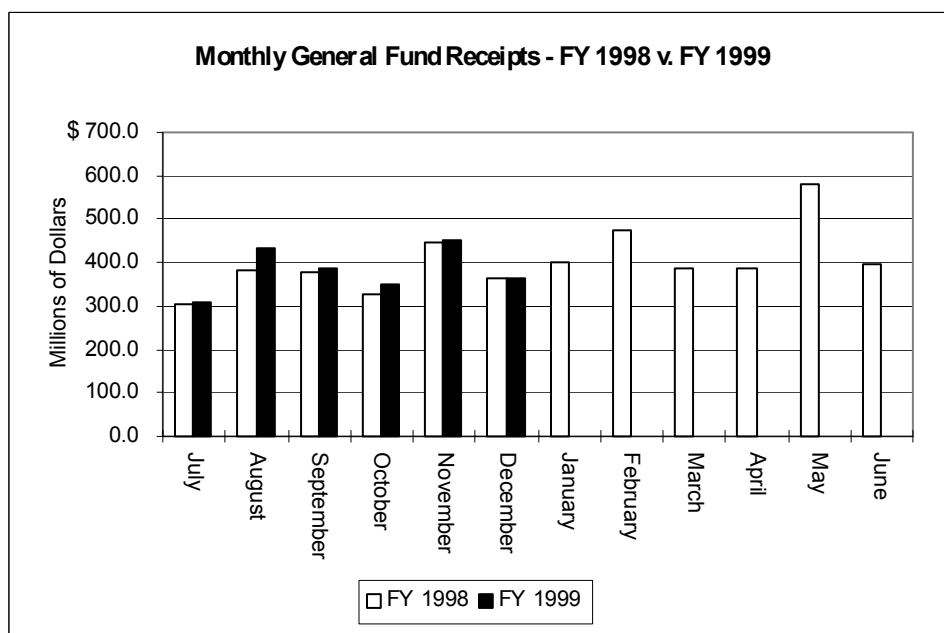
FROM: Dennis C. Prouty

DATE: January 4, 1999

General Fund Receipts Through December 31, 1998

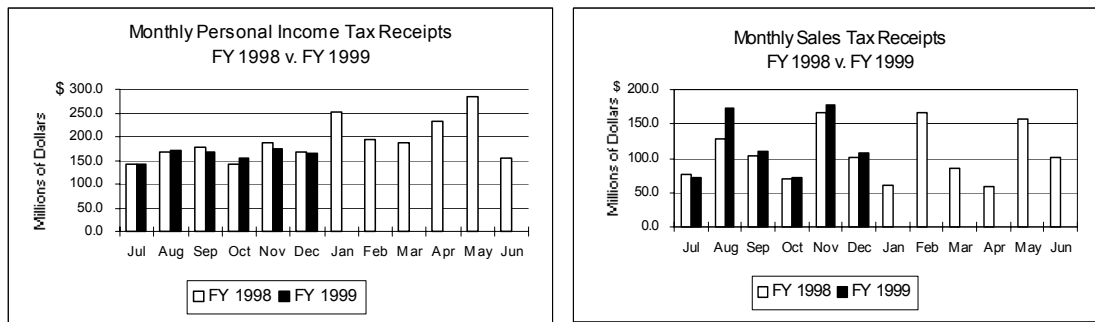
The attached spreadsheet represents total FY 1999 General Fund receipts, with comparable figures for FY 1998. These can be compared to the latest FY 1999 estimate (\$4.918 billion) set by the Revenue Estimating Conference (REC) on December 4, 1998. The estimate represents an increase of \$87.0 million (1.8%) compared to FY 1998.

The FY 1999 REC estimate includes all adjustments for the bills passing the 1998 General Assembly. The net effect of these bills was a reduction in FY 1999 General Fund revenues of approximately \$139.2 million. The largest of these is the Omnibus Tax Bill (\$85.6 million) which increased the income tax personal exemption, expanded the State capital gains exclusion, raised the pension income exclusion, expanded the tuition tax credit, provided a sales tax exemption for hospitals, and increased the Elderly and Disabled Tax Credit.



FY 1999 Compared to FY 1998

Fiscal Year 1999 revenue growth increased by \$79.9 million (3.6%) compared to FY 1998. This is above the current REC estimate of 1.8% for FY 1999 primarily due to a timing effect from sales tax receipts. Total December 1998 revenues decreased \$0.8 million (0.3%) compared to December 1997.



Gross personal income tax revenues received in December were \$3.7 million (2.2%) less than December 1997. Although FY 1998 withholding payments exhibited strong growth, the effect of the 10.0% income tax cut can clearly be seen in FY 1999 withholding tax receipts. The December growth rate was negative, with withholding payments decreasing by 2.7% compared to December 1997. Year-to-date withholding receipts are \$29.5 million (3.4%) below the FY 1998 level. This trend is expected to continue through the first seven months of FY 1999, until the full year's effect of the 10.0% income tax cut is experienced.

Estimate payments decreased in December, posting a loss of \$1.7 million (7.1%) compared to December 1997. Year-to-date growth in estimate payments stands at \$22.1 million (18.6%) due to exceptionally strong July and October growth. Estimate payments are expected to fall after the first of the year because of the recent volatility in the stock market and the strong growth experienced in January 1998. Year-to-date gains in estimate payments can be attributed to both the strong year in the stock market and the federal capital gains tax rate change, however, this trend is expected to moderate through the remainder of FY 1999.

The REC FY 1999 income tax estimate of \$2.352 billion represents a projected increase of 2.8% compared to FY 1998.

Sales tax receipts in December were \$5.3 million (5.2%) greater than December 1997. Year-to-date growth in sales tax stands at \$69.5 million (10.8%) compared to FY 1998. Nearly half of the annual gain is due to the change in the method of local option tax payments. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. Because of passing the old quarterly payment date in August 1997, August 1998 receipts were approximately \$31.7 million greater than otherwise would be the case. This timing factor explains a significant portion of the year-to-date growth in sales tax and overall revenues. The REC estimate for FY 1999 sales tax receipts is \$1.346 billion, which represents an increase of 5.8% compared to FY 1998.

Corporate income tax receipts in December were \$5.4 million (21.3%) greater than December 1997. On a dollar basis, estimate payments were the primary cause of growth for the month. Estimate payments received in December were \$5.8 million (24.8%) greater than December 1997. Year-to-date corporate income tax payments are \$10.0 million (8.2%) above the FY 1998 level.

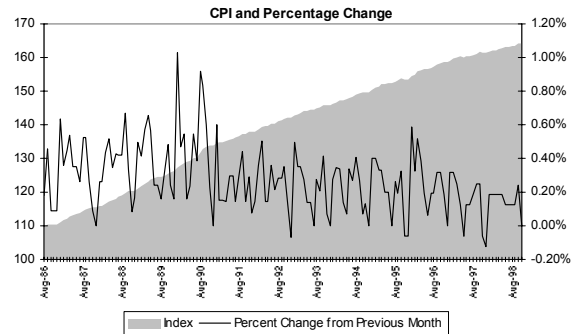
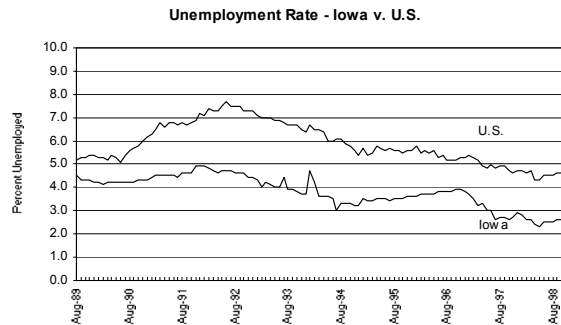
The REC projected FY 1999 corporate income tax receipts would total \$285.1 million, a decrease of \$5.6 million (1.9%) compared to FY 1998.

Racing and gaming receipts to the General Fund have reached their statutory cap of \$60.0 million. All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund for the remainder of the fiscal year. The REC estimated that \$100.1 million from this source would be deposited to the Infrastructure Account in FY 1999.

Status of the Economy

The seasonally adjusted percent unemployed for the State in November fell from the 2.6% rate in October to 2.5%. The unemployment rate a year ago was 2.9%. Iowa's total November employment registered 1,528,700, up from October's level of 1,525,800. The number of unemployed persons in Iowa stood at 39,900 in November, which is down from October's level of 41,400. The U.S. unemployment rate also fell from October's 4.6% rate to 4.4% in November.

Consumer prices in November were unchanged from October. The Consumer Price Index (CPI-U) through November 1998 was 164.0 (1983=100), which is 1.5% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through November 1998.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

GENERAL FUND RECEIPTS - FY 1999 vs. FY 1998					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1998, through December 31, 1998, in millions of dollars					FY 98 Actual Compared to FY 99 REC Estimate			
	FY 1998	FY 1999	Year to Date % CHANGE	December % CHANGE	Actual FY 1998	Estimate FY 1999	% CHANGE	
Personal Income Tax	\$ 980.5	\$ 977.6	-0.3%	-2.2%	\$ 2,288.4	\$ 2,352.2	2.8%	
Sales Tax	643.7	713.2	10.8%	5.2%	1,271.8	1,346.2	5.8%	
Use Tax	121.5	126.2	3.9%	-12.9%	243.0	259.8	6.9%	
Corporate Income Tax	122.3	132.3	8.2%	21.3%	290.7	285.1	-1.9%	
Inheritance Tax	56.3	49.4	-12.3%	-10.5%	109.8	86.6	-21.1%	
Insurance Premium Tax	0.7	0.4	-42.9%	-100.0%	108.9	108.9	0.0%	
Cigarette Tax	48.0	48.1	0.2%	-2.4%	94.6	92.6	-2.1%	
Tobacco Tax	3.1	3.5	12.9%	20.0%	6.1	6.6	8.2%	
Beer Tax	6.6	6.9	4.5%	11.1%	12.7	12.9	1.6%	
Franchise Tax	16.8	15.2	-9.5%	-23.5%	36.4	38.5	5.9%	
Miscellaneous Tax	1.9	3.9	105.3%	360.0%	1.3	1.3	3.1%	
Total Special Taxes	\$ 2,001.4	\$ 2,076.7	3.8%	1.5%	\$ 4,463.7	\$ 4,590.7	2.8%	
Institutional Payments	37.0	29.0	-21.6%	-31.9%	70.2	45.6	-35.0%	
Liquor Transfers:								
Profits	14.5	14.5	0.0%	0.0%	31.0	31.0	0.0%	
7% Gross Revenue	4.5	4.5	0.0%	0.0%	9.0	9.0	0.0%	
Interest	14.7	16.1	9.5%	-3.2%	30.6	28.0	-8.5%	
Fees	28.7	26.9	-6.3%	-26.2%	65.4	57.8	-11.6%	
Judicial Revenue	16.7	16.6	-0.6%	-69.2%	42.9	43.9	2.2%	
Miscellaneous Receipts	27.0	40.1	48.5%	112.5%	58.1	51.9	-10.7%	
Racing and Gaming Receipt	60.0	60.0	0.0%	-83.6%	60.0	60.0	0.0%	
TOTAL RECEIPTS	\$ 2,204.5	\$ 2,284.4	3.6%	-0.3%	\$ 4,830.9	\$ 4,917.9	1.8%	